July 07, 2023

Tata Cummins Private Limited (erstwhile Tata Cummins Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Fund-based/ Non-fund Based Limits	102.00	52.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Total	**102.00**	**52.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to factor in the strong technological and operational support extended by both the parent companies of Tata Cummins Private Limited (TCPL), i.e., Cummins Inc., USA (Cummins; rated A2/Stable by Moody's), and Tata Motors Limited (TML; rated [ICRA]AA(Stable)/ [ICRA]A1+). TCPL remains the key engine supplier for TML for its medium and heavy commercial vehicle (M&HCV) segment, with dominant market share of TML in the domestic M&HCV industry (~47% share in FY2023) providing comfort to TCPL's business profile. Aided by robust demand in the M&HCV segment leading to healthy volume offtake from TML, the company continued to demonstrate a healthy revenue growth momentum in FY2023, registering a sizeable 33% YoY revenue growth. The ratings also factor in TCPL's strong pass-through arrangements in place with its principal customers, which insulates the EBIT margins to an extent from fluctuations in raw material prices and foreign exchange rates, protecting its profitability. The ratings also continue to draw comfort from TCPL's strong wallet share in TML's M&HCV (12T+) engine requirement, which is expected to be sustained, going forward.

ICRA also notes the formation of a wholly-owned subsidiary of TCPL – TCPL Green Energy Solutions Private Limited (GES), which will focus on manufacturing hydrogen internal combustion (HIC) engines for the M&HCV segment. The investment requirements in GES, the funding mix adopted for the same, and its credit implications, remain monitorable going forward.

The rating strengths are partially offset by TCPL's high customer concentration risk with TML driving 77% of TCPL's total turnover in FY2023, and exposure to the associated cyclicality in the M&HCV segment. TML's leadership position in the Indian M&HCV market and a moderate revenue share of the Cummins Group in the power generation and industrial segments (23% in FY2023) partially mitigate the client concentration risks. Further, the emergence of alternative fuel technologies, including electric vehicles (EVs) may have a bearing on the demand for TCPL's engines over the medium to long-term. However, in this regard, the parentage of Cummins, a global market leader in engine technology, and investments in GES to align itself to emerging technologies can help mitigate this risk over the medium to long-term.

In terms of debt profile, a predominant share of the company's debt comprises bill discounting of TML's collections, and the rest is constituted by working capital loans. A sizeable buffer of ~Rs. 1,500 crore available in the form of undrawn working capital limits as well as bill discounting limits, coupled with free cash and liquid investments of ~Rs. 275 crore (both as on March 31, 2023), provide comfort to TCPL's liquidity profile. Overall, ICRA expects TCPL to maintain its comfortable capitalisation and coverage indicators, going forward, considering limited reliance on external borrowings and moderate capital expenditure plans, which are likely to be funded from internal accruals.

The Stable outlook reflects ICRA's opinion that TCPL will continue to benefit from its strong parentage, healthy financial risk profile and comfortable order book position.

Key rating drivers and their description

Credit strengths

Strong operational and technological support from parent companies – TCPL enjoys strong operational and technological support from its parents—TML, which is the largest M&HCV manufacturer in India, and Cummins Inc., which is the largest diesel engine manufacturer in the world. TCPL's operations are closely integrated with that of its parent entities.

Healthy share of business as the dominant supplier for TML's higher capacity engine requirement – After the implementation of BS-IV norms, TCPL has become the dominant supplier of engines to TML's M&HCV segment, which has been maintained even post implementation of BS-VI emission norms in April 2020. As demand for higher capacity M&HCVs remains healthy, backed by emergence of large-scale fleet operators in logistics and healthy demand from the infrastructure and construction sectors, TCPL is expected to demonstrate a steady business performance over the near to medium term.

Insulated from volatilities in raw material prices – TCPL's pricing agreement with TML and Cummins allows pass through of any volatility in input costs, major exchange fluctuations, import differential and taxes. Such arrangement ensures that the margins of TCPL are safeguarded to a large extent against volatilities in input costs.

Strong financial position – TCPL continues to exhibit a strong financial position, supported by an array of factors. Presence of strong pass-through arrangements with customers ensures adequate operating profits and coverage indicators, thus strengthening the financial profile. Further, a strong demand recovery in domestic and overseas CV markets since FY2022 has aided improvement in its asset turnover ratio as well as profitability and return indicators. Moreover, against the normal practice of recognised invoiced amount and adding bill discounting charges to interest costs, TCPL adjusts its revenues directly for the cost of bill discounting and, hence, the reported revenues, operating profits and return indicators are under-stated.

Credit challenges

High customer and industry concentration risk – TCPL's revenues primarily track the broader trends in the Indian M&HCV industry, TML's performance in the industry and its own wallet share with TML. In FY2023, TML accounted for around 77% of TCPL's sales, with the M&HCV industry continuing to dominate the revenue contribution for TCPL. While TCPL benefits from having assured customers (TML and Cummins) for its production, high concentration risk with TML and the M&HCV segment, and the associated cyclicality of revenues and earnings, continues to be a credit concern.

Limitations on acquiring new customers due to contours of JV agreement – As per the JV agreement, sales are restricted to TML or Cummins Group entities, thereby restricting any meaningful client diversification. Nevertheless, the strong market position of TML and Cummins in their respective businesses partially mitigates this risk.

Exposed to inherent cyclicality in M&HCV segment; impending risk of electrification in the automotive sector may impact demand for IC engines – TCPL mainly supplies engines to the M&HCV segment, which exposes its revenues to the inherent cyclicality in this segment. However, EBIT margins are partially insulated by the pass-through agreements with the JV partners. The impending risk of electrification and the emergence of alternative fuel technologies in the automotive sector may also impact the demand for TCPL's engines over the medium to long-term. However, with the formation of GES, and access to technology from Cummins, TCPL is likely to adapt itself to emerging technologies over the medium to long-term, as these start gaining acceptance in the Indian market.

Liquidity position: Strong

TCPL's liquidity profile is **strong**, supported by cash flows of Rs. 500-600 crore from operations, cash and liquid investments of over Rs. 275 crore and buffer of around Rs. 1,500 crore from undrawn working capital lines, as on March 31, 2023 at a consolidated level. These are expected to remain sufficient to meet its capital expenditure funding of Rs. 200-300 crore per annum over the near to medium term. As the company currently does not have any long-term debt on its books, the debt repayment quantum remains nil for TCPL.

Rating sensitivities

Positive factors – Given the company's high dependency on a single customer as well as its inherent cyclicality in the M&HCV industry, the scope for a rating upgrade from the current level is unlikely in the medium term.

Negative factors – Any sustained deterioration in profitability leading to weakening of liquidity and deterioration of the capital structure may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Component Suppliers](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of TCPL.

About the company

Incorporated in July 1993, TCPL is a 50:50 JV between TML and Cummins Inc., USA, manufacturing B-series and L-series engines for M&HCVs, industrial applications and power generation. While TML is TCPL's key customer, the company receives its technology from Cummins Inc., following its global manufacturing/ operational processes. Additionally, all product technology is received exclusively from Cummins, although the same can be localised in India with necessary modifications (with approval from Cummins Inc.) based on customer requirements. Starting with a greenfield project in Jamshedpur (Jharkhand) for manufacturing 60,000 automotive engines, it commenced production from January 1996. At present, TCPL has a production capacity of 300,000 engines per annum.

TCPL is, at present, the largest independent manufacturer of automotive diesel engines in the country. Its main products are four and six-cylinder Cummins B-series engines (75-285 HP) used in automotives (100-350 HP), industrial projects (50-350 HP) and power generation (gensets 30-300kVA) applications. Automotive engines are sold to TML, while Cummins procures automotive, power generation and industrial engines from TCPL. In March 2023, TCPL incorporated a wholly-owned subsidiary, GES, which would focus on developing engines using alternative fuel technologies, mainly HIC technology.

Key financial indicators

TCPL	FY2022 Audited Standalone	FY2023 Audited Consolidated
Operating Income (Rs. crore)	5,131.3	6,819.0
PAT (Rs. crore)	307.7	460.1
OPBDIT/OI (%)	11.5%	11.3%
PAT/OI (%)	6.0%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.7
Total Debt/OPBDIT (times)	1.9	1.4
Interest Coverage (times)	34.6	74.5

Source: TCPL, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date and rating in FY2023	Date and rating in FY2022	Date and rating in FY2021	
					Jul 7, 2023	May 31, 2022	-	Mar 17, 2021	Mar 11, 2021
1	Fund based / Non-fund based	Long-term / short term	52.0	NA	[ICRA]AA(Stable) /[ICRA]A1+	[ICRA]AA(Stable) /[ICRA]A1+	-	[ICRA]AA(Stable) /[ICRA]A1+	[ICRA]AA(Stable) /[ICRA]A1+
2	Buyers credit	Long-term	-	-	-	-	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)
3	Commercial Paper	Short-term	-	-	-	-	-	[ICRA]A1+ withdrawn	[ICRA]A1+

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term, Fund-based / Non Fund-based Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based / Non Fund Based Facilities	NA	NA	NA	52.0	[ICRA]AA(Stable)/ [ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	TCPL Ownership (March 31, 2023)	Consolidation Approach
TCPL Green Energy Solutions Private Limited	100.00%	Full Consolidation

Source: *TCPL*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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